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BEFORE THE ARIZONA CORPORATION CC

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

AUG 06 2009

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

DOCKETED BY

NR

IN THE MATTER OF THE APPLICATION OF
GLOBAL WATER – SANTA CRUZ WATER
COMPANY, FOR AUTHORITY TO INCUR
LONG-TERM DEBT THROUGH THE WATER
INFRASTRUCTURE FINANCE AUTHORITY OF
ARIZONA.

DOCKET NO. W-20446A-09-0184

DECISION NO. 71237

ORDER

Open Meeting
July 28 and 29, 2009
Phoenix, Arizona

BY THE COMMISSION:

Having considered the entire record herein and being fully advised in the premises, the
Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

* * * * *

FINDINGS OF FACT

1. On April 17, 2009, Global Water -- Santa Cruz Water Company ("Santa Cruz" or
"Company") filed an application with the Commission for authorization to execute a loan agreement
with the Water Infrastructure Finance Authority of Arizona ("WIFA").¹

2. Santa Cruz is a for-profit Class "A" Arizona public service corporation that provides
water service to approximately 16,800 customers in Pinal County, Arizona.

3. On May 19, 2009, the Company filed an affidavit of publication verifying that it
published notice of its application on May 15, 2009, in the *Casa Grande Dispatch*, a publication of
general circulation in the Pinal County, Arizona area.

4. On June 26, 2009, the Commission's Utilities Division ("Staff") issued a Staff Report

¹ This application was filed to take advantage of federal "stimulus" funds provided under the American Recovery and
Reinvestment Act of 2009 ("ARRA"), the distribution of which is being administered by WIFA for capital projects
undertaken by water and wastewater utilities in Arizona.

1 recommending approval of the application subject to certain conditions.

2 5. On February 17, 2009, the ARRA went into effect. WIFA's *Supplemental 2009 ARRA*
3 *Intended Use Plan* shows that the ARRA authorizes WIFA to provide an additional subsidy on loans,
4 which can include forgivable principal and/or additional interest rate subsidies. In addition, the
5 *Supplemental 2009 ARRA Intended Use Plan* provides that projects that receive ARRA funds would
6 need to be capable of moving forward rapidly and, hence, expedited regulatory consideration is
7 appropriate.

8 6. In its application, Santa Cruz requested authority to obtain a WIFA loan in the amount
9 of \$3,700,000 to fund a 500 kW solar energy project and to provide additional supervisory control
10 and data acquisition ("SCADA") equipment for the Company's facilities.

11 7. According to the Staff Engineering Report, the Company's proposed solar project has
12 an estimated cost projection of \$2,500,000. Santa Cruz anticipates that the 500 kW solar installation
13 will supply all of the power needed to operate the Global Water Center and will supply supplemental
14 power to a 3.0 million gallon per day water reclamation facility. The Company projects that the solar
15 facility will save approximately \$99,000 per year in electricity costs. Estimated costs for the solar
16 project are as follows:

Project Description	Estimated Cost (\$)
Planning	
Research and Development	\$15,000.00
Design & Engineering	
CRA, PO 20209001(001)	6,915.62
Project Design & Engineering	63,084.38
Legal/Debt Authorization	N/A
Financial Advisor	N/A
Land/System Acquisition	N/A
Equipment/Materials	
First Solar, Solar Panels	\$1,050,000.00
Schletter, Support Structures	309,034.88
Electrical Materials	440,965.12
Construction/Installation/Improvement	
Land Survey, PO 20209001(005)	5,000.00
Electrical	171,339.38
Installation (Local Operations)	173,660.62
Inspection & Construction Management	

1	Construction Inspection	175,000.00
2	Project Officer	
3	Site Project Manager	75,000.00
4	Administration	
5	Administration	15,000.00
6	Staff Training	N/A
7	Capitalized Interest	N/A
8	Other	N/A
9	Total for Project	\$2,500,000.00

8. The second project will provide additional SCADA equipment for Santa Cruz's facilities. As described in the Staff Engineering Report, SCADA systems are designed to allow for centralized automated remote operational control of water systems. Staff indicates that SCADA systems can reduce power usage and labor costs, and allow operators to have instantaneous access to current and historic data for trend monitoring and performance assessment. The Company's estimated costs for the SCADA project, as set forth in the Staff Report, are as follows:

	Uses by Budget Item	WIFA Funding
10	Planning	
11	Evaluation of Needed Components	\$30,000.00
12	Due Diligence of Equipment	40,000.00
13	Radio & Communications Planning	30,000.00
14	Design & Engineering	
15	Electrical Design	25,000.00
16	Development of SCADA Standards	50,000.00
17	Legal/Debt Authorization	N/A
18	Financial Advisor	N/A
19	Land/System Acquisition	N/A
20	Equipment/Materials	
21	Smith Well	\$40,000.00
22	Vance Well	30,000.00
23	Neely West Well	40,000.00
24	Neely North Well	30,000.00
25	Rancho Mirage Well	35,000.00
26	Glennwilde Well	30,000.00
27	Rancho Mirage WDC	50,000.00
28	Rancho El Dorado WDC	50,000.00
	Meadows WDC	35,000.00
	Groves WDC	35,000.00
	Global Water Center	75,000.00
	Construction/Installation/Improvement	
	Smith Well	\$40,000.00
	Vance Well	30,000.00

1	Neely West Well	40,000.00
2	Neely North Well	30,000.00
3	Rancho Mirage Well	35,000.00
4	Glennwilde Well	30,000.00
5	Rancho Mirage WDC	50,000.00
6	Rancho El Dorado WDC	10,000.00
7	Meadows WDC	35,000.00
8	Groves WDC	35,000.00
9	Global Water Center	65,000.00
10	Inspection & Construction Management	
11	Construction Inspection	150,000.00
12	Project Officer	
13	Site Project Manager	20,000.00
14	Administration	
15	Administration	5,000.00
16	Staff Training	N/A
17	Capitalized Interest	N/A
18	Other	N/A
19	Total for Project	\$1,200,000.00

9. According to Staff, Santa Cruz requested that the Commission authorize it to secure WIFA financing in an amount not to exceed \$3,700,000, with an anticipated 20-year amortizing loan and an interest rate of 6.0 percent per annum. The Staff Report also indicates that \$2,960,000 (80 percent) of the loan would be comprised of forgivable principal, with repayable indebtedness of \$740,000.²

10. Staff states that, as of December 31, 2008, Santa Cruz's capital structure consisted of 0.0 percent debt and 100 percent equity, and the Company's Debt Service Coverage ("DSC") ratio was 106.46 percent. Staff's pro forma financial analysis indicates that with the proposed WIFA loan, the Company's capital structure would consist of 0.1 percent short-term debt, 5.0 percent long-term debt, and 94.9 percent equity. Staff's pro forma analysis further shows that the Company's DSC would be 17.39 with receipt of the WIFA loan, at an interest rate of 6.0 percent. According to Staff, the pro forma DSC shows that cash flow from operations is sufficient to cover all obligations, including WIFA's requirement to fund a Debt Service Reserve Fund equal to 20 percent of debt

² On July 2, 2009, Santa Cruz filed "Technical Comments to the Staff Report" indicating that the WIFA interest rate will be 2.0 percent rather than the 6.0 percent rate stated in the Staff Report, but none of the loan would be considered forgivable principal. As a result, according to the Company, it would be responsible for repayment of the full \$3,700,000, albeit at a much lower interest rate than is reflected in the Staff Report. On July 10, 2009, Staff filed a Memorandum stating that Staff agrees with Santa Cruz regarding the terms of the WIFA loan as set forth in the Company's Technical Comments filing.

1 service.

2 11. In its July 2, 2009 filing, Santa Cruz states that the proposed financing remains
3 financially sound because inclusion of the correct 2.0 percent interest rate in the financial analysis
4 results in a pro forma DSC of 31.22 percent, which is significantly higher than the 17.39 percent DSC
5 under Staff's original analysis and well above the WIFA requirement for qualifying for the proposed
6 loan.

7 12. Staff concluded that issuance of the proposed debt financing for the purposes stated in
8 the application is within the Company's corporate powers, is compatible with the public interest, is
9 consistent with sound financial practices and will not impair its ability to provide service. Although
10 Staff recommended authorizing Santa Cruz to incur debt in an amount not to exceed \$3,700,000, for a
11 period of 18-to-22 years, pursuant to a loan agreement with WIFA that provided for 80 percent of the
12 principal amount to become forgiven upon compliance with the ARRA, given the lower 2.0 interest
13 rate pointed out by the Company's filing, Santa Cruz appears able to reasonably fund the loan even
14 without the forgivable principal assumed by Staff.

15 13. Arizona Administrative Code ("A.A.C.") R18-15-104 requires WIFA borrowers to
16 pledge their revenue sources to repay the financial assistance. A.R.S. § 40-285 requires public
17 service corporations to obtain Commission authorization to encumber certain utility assets. Staff
18 states that the statute serves to protect captive customers from a utility's act to dispose of any of its
19 assets that are necessary for the provision of service, and thus, it serves to preempt any service
20 impairment due to disposal of assets essential for providing service. Staff states further that pledging
21 assets as security typically provides benefits to the borrower in the way of increased access to capital
22 funds or preferable interest rates, and it is often an unavoidable condition of procuring funds for small
23 or financially stressed entities.

24 14. Staff concluded that the Company's proposed capital projects are appropriate and that
25 the cost estimates provided by Santa Cruz are reasonable. However, Staff made no "used and useful"
26 determination of the proposed capital projects for ratemaking or rate base purposes.

27 15. As a condition of approval, Staff also recommends that:
28

- a. Santa Cruz be authorized to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted herein;
- b. Santa Cruz be authorized to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 and A.A.C. R18-15-104 in connection with the WIFA loan;
- c. the authorization to incur debt granted by this Decision terminate on December 31, 2012;
- d. Santa Cruz be required to use its best efforts and to act in good faith to comply with all the requirements of the American Recovery and Reinvestment Act of 2009 and all requirements of WIFA in order to obtain the 80 percent forgivable principal;
- e. Santa Cruz file with Docket Control, as a compliance item in this docket, copies of the loan documentation within 60 days of the execution of any financing transaction authorized herein; and
- f. the Commission take the regulatory measures it deems appropriate due to any detrimental consequences to ratepayers that may result from the Company's failure to use best efforts and act in good faith to comply with the ARRA that results in a reduction in the amount of the loan that would otherwise qualify as forgivable principal.

16. According to Staff, Santa Cruz also requested authorization to use various forms of refinancing as long as total long-term indebtedness at any time would not exceed \$3,700,000 in 2009, or thereafter. Staff recommended that the Company's request be denied because of Staff's opinion that blanket refinancing authorizations should be approved sparingly in order for the Commission to retain oversight of debt issuances.

17. Staff's recommendations are reasonable and should be approved. However, given the Company's "Technical Comments" regarding the scope and terms of the proposed WIFA loan, the assumption of 80 percent forgivable principal in Staff's recommendations would not be applicable. The Company would still be required to use its best efforts and to "act in good faith to comply with all the requirements of the American Recovery and Reinvestment Act of 2009 and all requirements of WIFA" in order to qualify for the reduced 2.0 percent interest rate and, as such, the underlying premise of Staff's recommendation would not be altered. As Santa Cruz points out, its DSC ratio actually improves significantly under a pro forma analysis compared to Staff's assumption of a 6.0 percent interest rate. Based on consideration of all relevant factors, we believe the Company's application for authority to obtain the 2.0 percent WIFA loan, for the purpose of funding the proposed 500 kW solar project and SCADA improvements, is reasonable and in the public interest

1 despite the lack of any forgivable principal.

2 **CONCLUSIONS OF LAW**

3 1. Santa Cruz is a public service corporation within the meaning of Article XV of the
4 Arizona Constitution and A.R.S. §§ 40-285, 40-301, 40-302, and 40-303.

5 2. The Commission has jurisdiction over Santa Cruz and of the subject matter of the
6 application.

7 3. Notice of the application was given in accordance with the law.

8 4. The financing as approved herein is for lawful purposes within Santa Cruz's corporate
9 powers, is compatible with the public interest, with sound financial practices, and with the proper
10 performance by Santa Cruz of service as a public service corporation, and will not impair the
11 Company's ability to perform the service.

12 5. The financing approved herein is for the purposes stated in the application, is
13 reasonably necessary for those purposes and such purposes may not be reasonably chargeable to
14 operating expenses or to income.

15 6. Staff's recommendations are reasonable and should be adopted, subject to the
16 modifications discussed above.

17 **ORDER**

18 IT IS THEREFORE ORDERED that Global Water – Santa Cruz Water Company is hereby
19 authorized to incur long-term indebtedness in an amount up to \$3,700,000 pursuant to a loan
20 agreement with WIFA, at an interest rate not to exceed the 2.0 percent WIFA subsidized rate at the
21 time the loan is executed, for the purpose of funding a 500 kW solar energy project and SCADA
22 system improvements, and related facilities as described in the application.

23 IT IS FURTHER ORDERED that Global Water – Santa Cruz Water Company shall use best
24 efforts and act in good faith to comply with all requirements of the American Recovery and
25 Reinvestment Act of 2009 and all requirements of WIFA in order to obtain the reduced interest rate
26 loan.

27 IT IS FURTHER ORDERED that if Global Water – Santa Cruz Water Company fails to use
28 best efforts and to act in good faith to comply with the ARRA, resulting in an increase in the loan's

1 subsidized interest rate, the Commission shall take the regulatory measures it deems appropriate,
2 including but not limited to disallowing recovery for ratemaking purposes of the amount of the loan
3 that would otherwise have qualified for the reduced WIFA interest rate.

4 IT IS FURTHER ORDERED that the finance authority granted herein is expressly contingent
5 upon Global Water – Santa Cruz Water Company's use of the proceeds for the purposes stated in the
6 application and approved herein.

7 IT IS FURTHER ORDERED that Global Water – Santa Cruz Water Company is authorized
8 to pledge its assets in the state of Arizona pursuant to A.R.S. § 40-285 and A.A.C. R18-15-104 in
9 connection with the loan approved herein.

10 IT IS FURTHER ORDERED that Global Water – Santa Cruz Water Company is authorized
11 to engage in any transactions and to execute any documents necessary to effectuate the authorizations
12 granted.

13 IT IS FURTHER ORDERED that Global Water – Santa Cruz Water Company shall file with
14 Docket Control, as a compliance item in this docket, copies of all executed financing documents
15 related to this authority within 60 days after the date of execution.

16 IT IS FURTHER ORDERED that Global Water – Santa Cruz Water Company shall file with
17 Docket Control as a compliance item in this docket by May 31, 2010, copies of the WIFA
18 Completion Certification for the solar and SCADA project.

19 IT IS FURTHER ORDERED that the authorization to incur debt granted by this Decision
20 shall terminate on December 31, 2012.

21 IT IS FURTHER ORDERED that the request by Global Water – Santa Cruz Water Company
22 for authorization to use various forms of refinancing as long as total long-term indebtedness at any
23 time would not exceed \$3,700,000 in 2009, or thereafter, is denied.

24 ...

25 ...

26 ...

27 ...

28 ...

1 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not
 2 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
 3 proceeds derived thereby for purposes of establishing just and reasonable rates.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

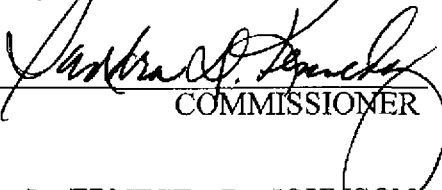
5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6
 7 
 8 CHAIRMAN

9 
 10 COMMISSIONER

11 
 12 COMMISSIONER

13 
 14 COMMISSIONER

15 
 16 COMMISSIONER

17 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
 18 Executive Director of the Arizona Corporation Commission,
 19 have hereunto set my hand and caused the official seal of the
 20 Commission to be affixed at the Capitol, in the City of
 21 Phoenix, this 6TH day of AUGUST, 2009.

22 
 23 ERNEST G. JOHNSON
 24 EXECUTIVE DIRECTOR

25 DISSENT _____

26 DISSENT _____

1 SERVICE LIST FOR:

GLOBAL WATER – SANTA CRUZ WATER
COMPANY

2 DOCKET NO.:

W-20446A-09-0184

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